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- b) taxes on property which is not used in providing covered services
 - c) taxes levied against any patient and collected and remitted by the provider
 - d) interest or penalties paid on federal and state payroll taxes
- 6. insurance premiums on lives of officers and owners
 - 7. the imputed value of services rendered by non-paid workers and volunteers
 - 8. costs of social, fraternal, civic, and other organizations which concern themselves with activities unrelated to their members' professional or business activities
 - 9. vending machine costs and related expenses
 - 10. board of director costs
 - 11. costs of advertising for patients
 - 12. public relations expenses
 - 13. penalties, fines, and late charges
 - 14. the cost of items or services provided only to non-medicare/medicaid patients and reimbursed by third party payers
 - 15. the costs of airplanes owned, leased, or chartered by the provider or related expenses
 - 16. bank overdraft charges or other penalties

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17. business expenses not directly related to the provision of patient care
18. management fees paid to a related organization that are not clearly derived from the actual cost of material, supplies, or services provided directly to the facility
19. business expenses not directly related to patient care, business investment activities and public relations activities
20. legal and other costs associated with litigation between a provider and state or federal agencies, unless litigation is decided in the provider's favor
21. legal expenses not related to patient care

In addition to these non-allowable expenses, purchase discounts, allowances, and refunds shall be deducted from the cost of items purchased. Refunds or prior years' expenses shall be deducted from the related expense.

D. Costs Allowed with Limitations

1. Reasonable limits shall be determined by the agency for administrator compensation based upon the current civil service salary schedule. This limitation shall apply to the salaries of each administrator and co-administrator of that facility.
2. Loan acquisition fees and standby fees shall be amortized over the life of the related loan if the loan is related to patient care.

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3. Only the taxes specified below shall be allowed as amortized costs:
 - a) taxes in connection with financing, re-financing, or re-funding operations
 - b) special assessments on land for capital improvements over the estimated useful life of these improvements
4. Any start-up cost of a provider with a newly constructed facility shall be recognized if it is:
 - a) incurred prior to the opening of the facility and related to developing the ability to care for patients
 - b) amortized over a period of not less than 60 months
 - c) consistent with the facility's federal income tax return, and internal and external financial reports, with the exception of subparagraph b above
 - d) identified in the cost report as a start-up cost. Start-up costs shall include:
 - i) administrative and nursing salaries, subject to the limitations in paragraph 1 of this subsection
 - ii) utilities
 - iii) taxes
 - iv) insurance
 - v) mortgage interest

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- vi) employee training costs
 - vii) any other allowable costs incidental to the operation of the facility
5. Any cost which can properly be identified as an organization expense or can be capitalized as a construction expense shall be appropriately classified and excluded from start-up costs
 6. Costs associated with services, facilities, and supplies furnished to the provider by related parties shall be included in the allowable cost of the facility at the actual cost to the related party, except that the allowable cost to the provider shall not exceed the lower of the actual cost or the market price.
 7. When a provider chooses to pay an amount in excess of the market price for supplies or services, the agency shall use the market price to determine the allowable cost under the medicaid/mediKan program in the absence of a clear justification of the premium.
 8. The net cost of job-related training and educational activities shall be an allowable cost. These costs include the net cost of "orientation" and "on-the-job" training.
 9. Membership dues and costs incurred as a result of membership in professional, technical, or business-related organizations shall be allowable. However, similar expenses as set forth in paragraph D 8 above shall not be allowable.
 10. Lease payments shall be reported in accordance with generally accepted accounting principles as appropriate to the reporting period.

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E. Interest Expense

Only necessary and proper interest on working capital indebtedness shall be an allowable cost.

1. The interest expense shall be incurred on indebtedness established with:
 - a) lenders or lending organizations not related to the borrower
 - b) central office organizations, or related parties, if the following conditions are met:
 - i) the terms and conditions of payment of the loans shall resemble terms and conditions of an arms-length transaction by a prudent borrower with a recognized, local lending institutions with the capability of entering into a transaction of the required magnitude
 - ii) the provider shall demonstrate, to the satisfaction of the agency, a primary business purpose for the loan other than increasing the rate of reimbursement
 - iii) the transaction shall be recognized and reported by all parties for federal income tax purposes
3. The interest expense shall be reduced by the investment income from restricted or unrestricted idle funds or funded reserve accounts, except when that income is from gifts, grants, whether restricted or unrestricted, which are held in separate accounts not co-mingled with other funds. Income from the provider's qualified pension fund shall not be used to reduce interest expense.

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4. Interest earned on restricted or unrestricted reserve accounts of industrial revenue bonds or sinking fund accounts shall be offset against interest expense and limited to the interest expense on the related debt.
5. Loans made to finance that portion of the cost of acquisition of a facility that exceeds historical cost or the cost basis recognized for program purposes shall not be considered to be reasonable related to patient care.

F. Central Office Costs

Allocation of central office costs shall be reasonable, conform to generally accepted accounting procedures, and allowed only to the extent that the central office is providing a service normally available in facilities of this nature. Central office costs shall not be recognized or allowed to the extent that they are unreasonable in excess of similar providers in the program. The burden of furnishing sufficient evidence to establish a reasonable level of costs shall be on the provider. All expenses reported as central office costs shall be limited to the actual patient-related costs of the central office.

1. The cost of ownership or the arms-length lease expense, utilities, maintenance, property taxes, insurance, and other plant operating costs of the central or regional office space for patient-related activities shall be reported as central office costs.
2. All administrative expenses incurred by a central office shall be reported as central office costs. These expenses shall include but are not limited to:
 - a) salaries

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- b) benefits
- c) office supplies and printing
- d) management consultant fees
- e) telephones and other forms of communications
- f) travel and vehicle expenses
- g) allowable advertising
- h) licenses and dues
- i) legal, accounting, data processing, insurance, and interest expenses

These costs shall not be directed to individual facilities operated by the provider or reported on any other line of the cost report.

3. Non-reimbursable costs, costs allowed with limitations and revenue offsets as identified in this regulation shall apply to central office costs.
4. Estimates of central office costs shall not be allowed.
5. All providers operating more than one facility shall complete and submit detailed schedules of all salaries and expenses incurred for each fiscal year. Failure to submit detailed central office expenses and allocation methods shall result in the cost report being considered incomplete. Methods for allocating costs to all facilities shall be submitted for prior approval.

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G. Revenues

A statement of revenue shall be required as part of the cost report forms. Revenue shall be reported in accordance with generally accepted accounting procedures as recorded in the accounting records of the facility.

1. The cost of non-covered services provided to patients shall be deducted from the related expense item. The net expense shall not be less than zero.
2. Revenue received for a service that is not related to patient care shall be used to offset the cost of providing that, service, if the cost incurred cannot be determined or is not furnished to the agency by the provider. The cost report line item which includes the non-patient related costs shall not be less than zero. Miscellaneous revenue with insufficient explanation in the cost report shall be offset.
3. Expense recoveries credited to expense accounts shall not be reclassified as revenue to increase the costs reported in order to qualify for a higher rate. Changes in these methods shall not be permitted without prior approval.

II Definition of "Encounter"

"Encounter" means a face-to-face visit between an FQHC patient and a physician, physician assistant, nurse practitioner, nurse midwife, specialized nurse practitioner, visiting nurse, qualified clinical psychologist, dentist or social worker. Encounters with more than one health professional or multiple encounters with the same health professional that take place on the same date and at a single location constitute a single encounter. The only exception to this is when the patient, subsequent to the first encounter, suffers illness or injury requiring additional diagnosis or treatment.

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III. Encounter Rates

The State of Kansas assures that payments are based upon and cover the reasonable costs of providing services to Medicaid recipients.

A. Established FQHCs

1. For established FQHCs, the encounter rate shall be calculated based on the historic costs submitted by the FQHC for its most recently completed fiscal year occurring prior to the center's enrollment in the Kansas Medicaid Program as a FQHC.
2. Within 90 days of the close of the FQHC's regular fiscal year after enrolling as a FQHC, an historic cost report will be filed with the Department. This report will be analyzed and used to establish a base year encounter rate and make a year-end settlement. Retroactive adjustments of the payments made during the immediately preceding fiscal year for any overpayment or underpayment shall be at the rate computed from the historical cost data reported in accordance with this paragraph.
3. The effective date of the base year encounter rate shall be for dates of service on or after the first day of the second month following the receipt of a complete cost report.

B. New FQHCs

1. Interim rates shall be established for new FQHCs upon enrollment. the first encounter rate shall be an interim rate based on the average of encounter rates for established FQHC facilities enrolled in the Kansas Medicaid Program.

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2. Within 90 days of the end of the first full fiscal year of operation for the new FQHC, a cost report will be submitted to the Department which details the total operating costs and total number of encounters provided by the FQHC. This report shall be analyzed and used to establish a base year encounter rate and make a settlement for the period of time covered by the interim rate. Retroactive adjustments of the payments made during the interim period (underpayment or overpayment) shall be at the rate computed from the historical cost data.
3. The effective date of the base year encounter rate shall be for dates of service on or after the first day of the second month following receipt of a complete cost report.

B. Rate Modifications

Each FQHC participating in the payment system may request a modification of its rate.

Each rate modification request shall be in writing using forms provided by the Department, and must provide sufficient information and documentation to support the request. The Department shall review the submitted documentation and shall notify the FQHC of the disposition of the request within 60 days of the receipt of the request and documentation.